



OFFICE OF
NATIONAL ESTIMATES

MEMORANDUM

Algeria: Troubles Ahead?

~~Secret~~

19 August 1969

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CENTRAL INTELLIGENCE AGENCY
OFFICE OF NATIONAL ESTIMATES

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MEMORANDUM

SUBJECT: Algeria: Troubles Ahead? *

Algeria has long been a paradox. It is a radical Arab state with fairly close ties to the USSR; it is also a major, wealthy oil-producer, and a long time recipient of subsidies from and favorable treatment by France. Its government is avowedly socialist and anti-US in its public pronouncements, but it has substantial dealings with American technicians and corporations. Alleged by some, particularly the Moroccans, to be a pliable instrument of the USSR, Algeria in fact has occasionally been critical of the Soviets and jealously guards its independence.

Algeria may continue to follow a similarly mixed pattern. Yet quite a different course of developments is possible: one which would entail a deterioration of its relations with France, bring on a change in its dealings with the oil companies so severe as to have international repercussions, and ultimately enhance its ties with the Soviet Union. We do not estimate this to be the probable sequence of events; we do regard it as a serious possibility worthy of careful attention.

* This memorandum was prepared by the Office of National Estimates. It was discussed with representatives of the Office of Current Intelligence and the Office of Economic Research, who are in general agreement with its judgments.

GROUP 1
Excluded from automatic
downgrading and
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1. Algeria became independent in 1962 after a bloody seven year rebellion against the French. General de Gaulle was the sponsor and patron of the settlement. He not merely agreed to the establishment of the state over bitter opposition from the French military and from the politically powerful French settlers in Algeria; he also provided it with the financing for its early and difficult days. From 1962 to 1969, France provided well over a billion dollars in economic aid and technical assistance though on a declining scale. Half a million Algerians continue to work in France and remit their earnings to their families at home. France remains Algeria's principal trading partner. De Gaulle made no special issue out of his failure to get compensation for the French properties seized at independence; rather, he agreed to purchase most of the wine produced by the formerly French-owned estates in Algeria, though in progressively reduced quantities. In 1965, an agreement was negotiated between the two governments which provided for French purchase of Algerian oil at above world market prices. Since then, production has substantially increased -- as have revenues -- and Algeria has become a relatively wealthy state in the underdeveloped world.*

* Current production is nearly one million barrels a day, giving Algeria an income of about \$600 million in 1968.

2. At the same time, the Algerians developed good, even close relations with the USSR. The most effective tie has been an extensive Soviet military assistance program. Since 1963, Algeria has received some \$250 million in planes, tanks, ships, and the like from the USSR. Its armed forces are now almost completely dependent on Moscow for spare parts, replacements, training, and ammunition. There are 1,200-1,500 Soviet military advisors and technicians in Algeria. The Soviets are helping build a large steel mill and a number of small projects. Trade is growing, and substantial Soviet aid projects have been promised. Recently the USSR agreed to buy the large quantities of Algerian wine which France had refused to take and which had been unsalable elsewhere.

3. Though a growing Soviet presence can be ascribed in part to arms supply policy and other aid, much of it results from a considerable parallelism of view and of interests between the Soviets and the Algerians. Algeria is dominated, and may continue to be dominated for some time, by a group of revolutionary leftists whose ideas were forged during the war of independence. Though avowedly non-Marxist, far less sentimentally inclined to follow Moscow's lead than was former

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President Ben Bella, and occasionally in disagreement on specific programs, all want some kind of socialism for Algeria.

4. In seeking to develop Algeria along non-capitalist lines, the government has sought the advice of numerous foreign expert economic bodies, including the Soviet's GOSPLAN. And at least some of GOSPLAN's recommendations appear to have been accepted. Since then there have been working ties between Russian and Algerian planners, technicians, engineers and the like, paralleling the working relationships between their military counterparts. The Algerians are seeking to develop as much autarchy as possible by establishing a host of import substitution enterprises. Aided by some 2,000 Soviets, and by even more Frenchmen, Germans, Americans, and other Westerners, Algeria is now embarked on a major economic development program. Most investment is in costly projects designed to make Algeria, ultimately, a sizeable industrial power with jobs and prosperity for all. But many years will be required to produce results. In the interim, as in the USSR, the consumer comes last; living standards are low, taxes high, and goods scarce. There is also widespread unemployment.

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5. This development program is far from being Russian directed or administered however. Indeed, one of the Algerian government's principal aims is to acquire or maintain its own control of all elements of the economy, including those in which the Soviets are participating. To this end, it has nationalized or taken over the direction of virtually all foreign private enterprises in Algeria, except for foreign, principally French, oil companies. At the same time, it is launching a host of new joint ventures with Western, including many American, private corporations in such fields as oil exploration. It is also directly hiring the services of American consultants -- e.g., Arthur D. Little, Inc. -- and is seeking American equipment and expertise for such items as computer systems and even whole factories.

6. Further, the Algerian government-owned oil and gas company, SONATRACH, is seeking to sell its products directly to foreign countries. A recently signed contract with the El Paso Natural Gas Company is its most notable success so far. If the financing of this project goes through, an investment of over \$900 million (\$300 million by El Paso, \$600 million by the Algerians) will be made and SONATRACH will sell large

quantities of liquified natural gas (about 14 percent of present US consumption) to El Paso for American use.

7. A common thread runs through all this activity. In each case the Algerian government refuses to surrender control of any project to an outsider. Unlike the traditional oil concessions of the Middle East over the years, which grant outside companies considerable latitude in determining such matters as exploration and production, all Algerian joint venture agreements give the host government 51 percent of the shares -- and operating control. The highly paid foreign consultants and technicians are employees of the Algerian government, which can hire and fire them at will. The expensive expertise and equipment being purchased is paid for by Algeria's oil revenues, and this gives it substantial freedom of action.

8. Algeria's foreign policies are not unlike its domestic ones. It seeks to maintain freedom from outside domination and direction, while pursuing courses of action and adopting attitudes consistent with its own revolutionary principles. It normally sympathizes with the socialist world rather than the capitalist one. It views the US government with suspicion

and frequently with hostility. It particularly objects to US policy in Vietnam and in the Middle East; it regards the efforts of the Viet Cong and the Palestinians as counterparts of its own revolutionary struggle, and casts the US in the role of the French in that conflict.

9. Soviet-Algerian relations, on the other hand, are generally good. Russian naval craft can call at Algerian ports, but do so very infrequently. The state controlled press printed only the Tass version of the Soviet invasion of Czechoslovakia. The Soviets, for their part, frequently praise Algeria as a progressive Arab state developing in a correct manner. But even with extensive arms supply programs and many ideological affinities, Soviet influence remains limited. Many more Westerners than Russians are engaged in Algerian development efforts, and there are no signs of change in this respect. The two countries openly disagree on some issues, notably on the Arab-Israeli conflict; the Algerians ridicule Soviet efforts to achieve a peaceful solution, saying that the only acceptable course of action there is for the Palestinians to emulate Algeria's independence struggle.

10. This and other differences may lead to private debates between Algerian and Soviet officials, but to only a few open signs of acrimony; they are being treated on both sides as something to agree to disagree about. All in all, an appraisal of the degree of Soviet influence on the Algerian government eventually becomes an exercise in semantics. The counsels of the Russian Ambassador no doubt carry weight, but are not decisive. Soviet-Algerian relations remain excellent because both parties enjoy mutual advantages from them. The question then arises: could the balance be tipped so that Algeria would some day no longer be in its present strong position to reject Moscow's "advice" on important issues? In this connection, much will depend on Algeria's future relationships with two other major outside forces it deals with: France and the oil industry.

11. The Algerian leaders must be concerned that Pompidou will not show them his predecessor's forbearance and sympathy. Indeed, even before de Gaulle stepped down, strains had appeared between Paris and Algiers. In 1968, under heavy pressure from French growers, Paris ended the purchase of all but small amounts of Algerian wine. In the same year, Algerian

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immigration into France was all but cut off for a time,
though this restriction was eventually eased by de Gaulle.

12. More serious to the Algerians is what they see as the unfriendly policy of the French oil companies, who produce over 80 percent of total Algerian output. Algiers charges that these companies are not exploiting their fields to the fullest; further, it claims that in failing to explore for further oil reserves, the French are not living up to their obligations. The companies counter that virtually all of Algeria's oil reserves have been located, that reserves are being depleted so rapidly that overall output will sharply decline over the next few years.^{1/} These disputes have led to acrimonious Algerian press attacks, to the nationalization (so far without compensation) of virtually all remaining non-petroleum French private businesses in 1968, and even to Algerian participation in the assault on the franc in November of that year.^{2/} De Gaulle took such harassments with forbearance; Pompidou is less likely to do so.

^{1/} [REDACTED] He believes that output five years from now may be only 60 percent of its present rate unless new fields are discovered. He is not optimistic that they will be.

^{2/} During that monetary crisis Algeria took 500 million francs (\$100 million) from its reserves and purchased gold or dollars.

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13. For their part, Algerians may be getting ready to make some new and possibly severe moves against the oil companies, which are the principal remaining French assets in Algiers. At least the French are concerned about such a possibility. The opportunity to do so is not too far away; the Franco-Algerian oil accords must be renegotiated between the two governments in late 1970 if either party requests it.

14. Past Algerian treatment of, and demands on US oil companies, which produce about 10 percent of Algeria's oil and whose assets in the country run to some \$100 million, may indicate what the French could face. If so, the latter are in for a bad time; the American companies have been treated with a harshness unmatched in the Middle East. Algerian managers were installed by the government during the Arab-Israeli 1967 war, though Americans continue to operate the companies. Further, the companies are forbidden to expatriate any of their earnings. Then in 1969, one of the US firms (Sinclair) was, on a legal pretext, nationalized. Over the years, American oil men have reported harassment and a stubborn unwillingness to compromise on the part of the Algerians.

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15. They also report a continuing effort by the Algerians to get them to accept what eventually came to be known as the "Getty formula". According to the latter, a new joint venture would be formed, with the Algerians, as in their dealings with non-oil companies, holding 51 percent of the shares. In addition to becoming a minority stockholder, the oil company has initially to invest large sums and gets only 12 percent of the profits. This formula is unprecedentedly favorable to the host government and goes far beyond other petroleum arrangements in the Middle East or elsewhere. It has been pressed by the Algerians at every opportunity (they offered to de-nationalize Sinclair, return its holdings, and free it of many restrictions if it would sign such an agreement). But for a long time no company in Algeria would agree, fearing the precedent that would be set elsewhere.

16. Finally, however, Mr. J. Paul Getty signed on Algeria's terms. He was greeted with effusive publicity, his cooperation was warmly welcomed, and he was given the country's most promising areas for exploration.* The French companies now fear that the

* In eight months of operations, the Getty Company's experience tends to confirm the French thesis that Algerian reserves have been pretty well discovered. Only dry holes have been drilled.

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Algerians will insist on similar concessions from them in the 1970 negotiations. They are also concerned that they will receive the same treatment meted out to the Americans -- harassment, freezing of assets, and even nationalization -- if they refuse to meet such demands.

17. Each side can approach the 1970 petroleum negotiations with weapons of its own. On the one hand, the French government may feel it could make Algeria suffer if drastic moves were to be taken against French assets. France might be able, with the assistance of the other major oil companies, to block the sales of Algeria's petroleum and gas, which account for 70 percent of its export revenues, in most parts of the non-Communist world. A cutoff of Algerian petroleum would create no actual shortages in France, as there are ample supplies in other parts of Africa, the Persian Gulf and the Western Hemisphere. Beyond this, the French could refuse to import citrus fruit, minerals and other items from Algeria which remain important sources of income. Pompidou, who would probably be less inhibited than de Gaulle, might even block remittances from Algerians in France to their families at home or, in extremis, expel those workers.

18. Such French retaliations would be strongly supported by the major oil companies, including the American ones; acceptance of such extreme Algerian demands would have a major impact on the world oil industry, in which US firms play the principal role and which provides a very important support to the US balance of payments. As in the past, other governments, e.g., Iran, Saudi Arabia, Kuwait, would probably start pushing hard for equal treatment. In these circumstances, most oil companies would probably exert heavy pressures on the French oil companies, and on the French and US governments to resist Algerian demands.

19. The government in Algiers might be vulnerable to such punitive measures. The political climate remains uncertain. In the past two years, President Boumediene had to put down an attempted coup, and narrowly escaped being assassinated. There are opponents of the regime both inside and outside the country and a successful conspiracy might take place in agitated times. The regime's economic approach, which in fact amounts to grinding down the present generation so the next will enjoy high living standards, is probably becoming less and less palatable to the Algerian people. They have remained docile and most of them

apolitical; one of the major reasons for this is the war weariness and apathy engendered by the brutal independence struggle. But that was seven years ago, and another generation is on the way. Indeed, there are some strong reasons for the Algerians to keep on good terms with the French. However, intense their revolutionary dogmas, they need the money the French oil companies pay to support their ambitious and expensive development program.

20. In these circumstances we might expect that a new Franco-Algerian accord will be forthcoming in 1970 if indeed negotiations take place. The Algerian government now receives some \$600-700 million a year in oil and gas revenues; it needs this money for its high priority development program, that much or most of this income could dry up in the event of a crisis. If the two parties behaved rationally, they should arrive at a mutually acceptable accommodation.

21. This may indeed happen, but an opposite case can be made. "Rational" can be a misleading term, particularly when concepts of socialism and national pride are involved and when there is ample room for error in calculations of



bargaining strength. If Algeria decides it must have maximum oil revenues with a minimum of French retaliatory acts, it would almost certainly not generate a crisis. However, it may decide that other goals are paramount.

22. There is little doubt that the Algerians would like to fully control all the resources within their territory, and the French oil companies are the only ones of any importance they do not now control. In this respect, Algeria's leaders differ fundamentally from the monarchs of Saudi Arabia or Libya, who feel quite comfortable working with foreign companies on a concession basis. The important question is, do the Algerians think they can get away with threatening or actually seizing the French companies?

23. The Algerians almost certainly recognize that they have some effective means of putting pressure on the French. They see Paris facing a balance of payments crisis. In the past year, they have noted France drawing down half its foreign exchange reserves and devaluating the franc so as to increase export earnings and decrease import costs. The Algerians could, if they wished, further aggravate Paris' balance of payments



problems. Thus in 1970 French oil companies in Algeria will expect to repatriate up to \$400 million in earnings to the metropole. Even the threat of an Algerian freeze of these funds would have serious repercussions. In such circumstances the Algerians might reason that the French government could be induced to accept something like the Getty formula, rather than lose everything.

24. Beyond this, the Algerians may calculate that they would not suffer all that much if they moved against the French oil companies. Algerian petroleum comes from west of the Suez Canal and is low in sulphur content -- both highly desirable attributes in Western Europe these days. The Algerians may feel they could sell to independent companies in Germany, Italy and elsewhere in Western Europe -- without having to share the earnings with the French. They may be right (their nationalization of Sinclair has not hurt them); at present, nobody knows how successful such efforts would be, particularly over a fairly extended period of time. And the Algerians could plan for a fairly extended time of crisis; they have some \$600 million in foreign exchange reserves. In any event, the country's leaders have long been accustomed to adopting policies entailing high risks and imposing personal hardships on the Algerian people.

25. They may also feel that the Soviets would, if the worst happens, come to their assistance. Though the USSR is a net exporter of oil, it is already purchasing small amounts from Algeria and might for political reasons, and perhaps for economic ones as well, agree to take substantially more. Armaments aside, the Algerians generally prefer Western industrial equipment to that of Soviet manufacture. But if there were no alternative, they would probably accept the latter in payment for their oil. How far the Soviets would be willing or able to come to the aid of their friends is open to question. But in the event of a rupture in French-Algerian relations, they might take the opportunity to enhance their influence in Algeria.